



September 29, 2015

The Honorable Glenda Sanders
Presiding Judge of the Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

Honorable Judge Sanders:

The City of Lake Forest (the "City") has reviewed the Orange County 2014-15 Grand Jury Report Regarding Unfunded Retiree Healthcare Obligations ("Grand Jury Report"). Below are the City's comments to the applicable findings and recommendations set forth in the Grand Jury Report pursuant to Penal Code Sections 933(c) and 933.05.

Findings

F.4. All agencies surveyed (except Anaheim) do not disclose retiree health benefits as part of employee compensation per GAAP standards.

Response: The City has not independently reviewed the retiree health benefits disclosure practices of the 32 agencies named in the Grand Jury report entitled "Unfunded Retiree Healthcare Obligations – A Problem For Public Agencies?" to verify this finding. Without such a foundation from which to offer an informed opinion, the City respectfully disagrees with this finding. Further, the City disagrees it was required to disclose retiree health benefits as part of employee compensation pursuant to General Accepted Accounting Principals ("GAAP") standards. The Grand Jury Report states that according to GAAP, retiree health benefits earned by current employees for their future use should be recognized in the agency's compensation report in the period in which those benefits are earned. (See page 15 of the Grand Jury report.) The grand jury reviewed the City's financial documents for the period ending June 30, 2013.

Government Code Section 53892(1) provides that the report submitted to the State Controller's office shall contain "[t]he annual compensation of a local agency's elected officials, officers, and employees in accordance with reporting instructions developed by the Controller pursuant to Section 53891 in consultation with affected local agencies."

The City submitted the state compensation report on the State Controller form. The form does not contain a line item to identify the entire amount of employee health care benefits (i.e. the difference between the amount the City paid directly to the employee and the Annual Retiree Contribution).

Recommendations

R.4 The agencies surveyed should recognize their retiree health care benefits in employee compensation in conformity with GAAP.

Mayor
Scott Voigts

Mayor Pro Tem
Andrew Hamilton

Council Members
Dr. Jim Gardner
Adam Nick
Dwight Robinson

City Manager
Robert C. Dunek

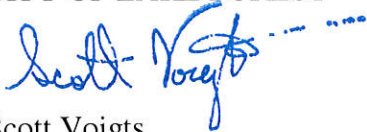
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The City makes no recommendations as to what other agencies should do. As for Lake Forest, the City of Lake Forest Comprehensive Annual Financial Report complies with Government Accounting Standards Board (GASB) Statements 43 and 45 related to the accounting for other Post-Employment Benefits including all required financial statement note disclosures and required supplemental information. GASB Statements 43 and 45 define the required elements of GAAP related to the accounting, financial statement note disclosure, and required supplementary information. The City believes the recommendation to recognize retiree health care benefits in the compensation report is inconsistent with the electronic reporting instructions for the Government Compensation in California Program. Specifically Step B14 requires the employer to enter the contribution (dollar amount) paid by the employer towards the employee's Health, Dental, and/or Vision care plan. The City complied with compensation report instructions by reporting all employer contributions paid towards an employee's Health, Dental and/or Vision care plan in the appropriate column.

The City hopes that this response is helpful and takes this opportunity to thank the Grand Jury for its services and efforts. Should you have any questions about this letter, please contact Keith Neves, Deputy City Manager/Director of Finance at (949) 461-3431.

Sincerely,

CITY OF LAKE FOREST



Scott Voigts
Mayor

cc: Orange County Grand Jury
City Council
Matthew E. Richardson, City Attorney